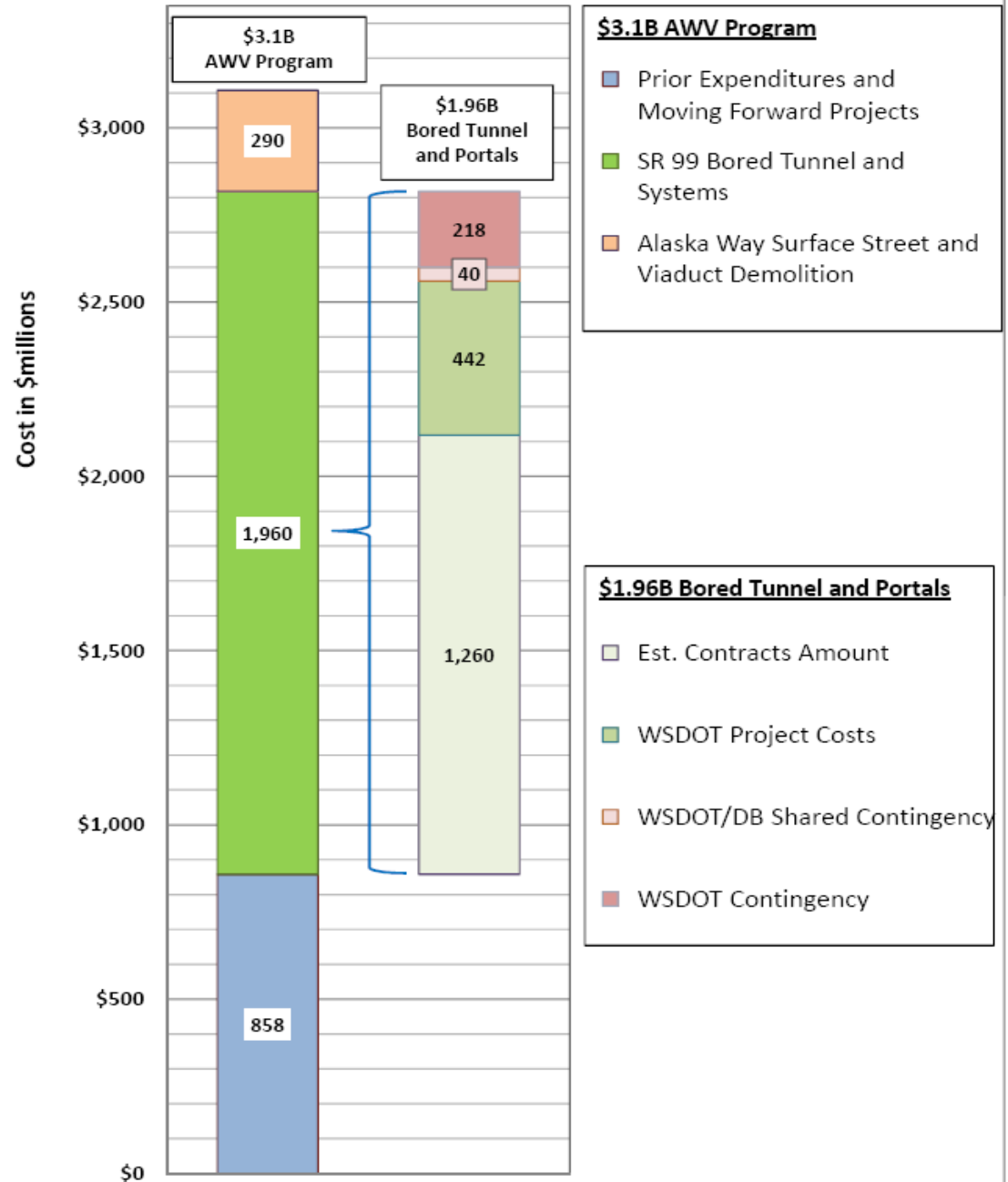


Contingencies, Insurance and Sureties

**SPECIAL COMMITTEE ON THE
ALASKAN WAY VIADUCT &
SEAWALL REPLACEMENT PROJECT AND
CENTRAL WATERFRONT PLANNING
July 6, 2010**

Project Contingency

WSDOT'S AWV PROGRAM BUDGET



Sizing the Performance Bond

Purpose of Surety Bond

- ◉ Address situation where contractor defaults before project is complete - likely because of a fault in contractor's design or construction methods;
- ◉ Does *not* address increased costs that result from a failure of the State to accurately describe construction conditions.

State Requirements

WSDOT must secure a 100% performance bond, unless:

- ◉ The contract value is more than \$250 million;
- ◉ A 100% bond is not available in the surety market;
- ◉ WSDOT conducts an analysis of the State's maximum exposure to loss using a method that has been reviewed by the Office of Financial Management (OFM); and
- ◉ OFM reviews the specific analysis and concludes that the proposed bond amount covers 100% of this exposure to loss.

Sizing the Performance Bond (cont.)

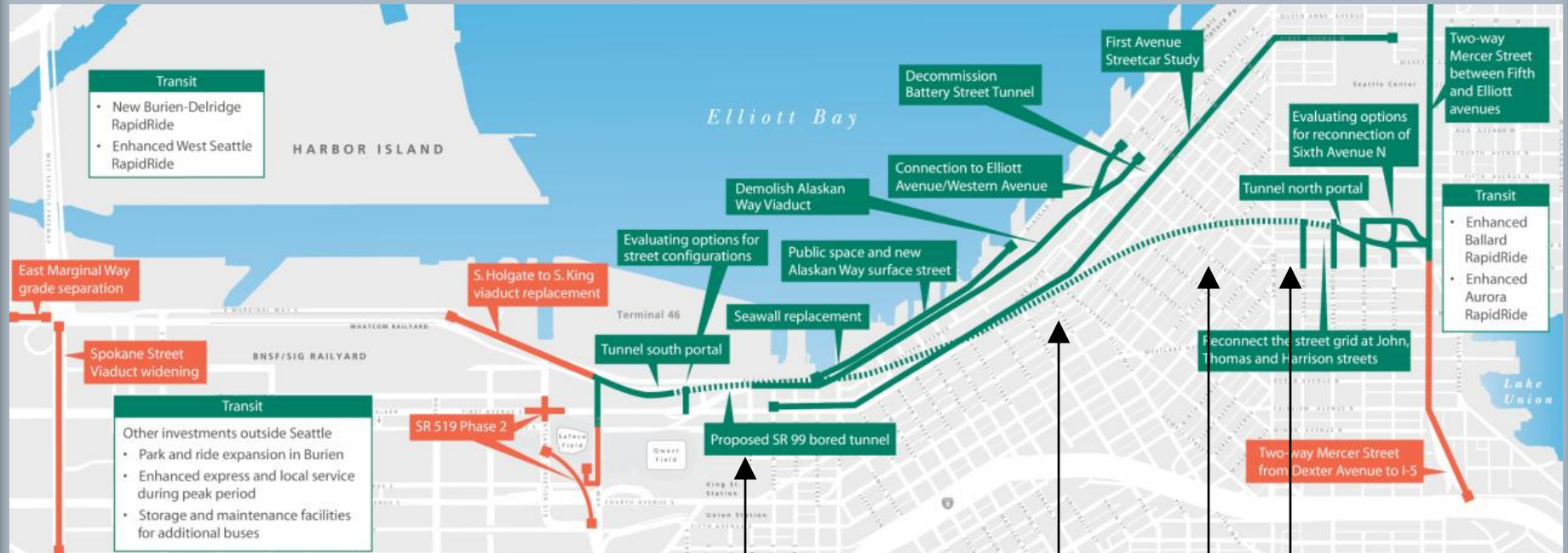
The assessment of exposure to loss is driven by "a worst case scenario" analysis

Key assumptions in scenario analysis:

- ⦿ Contractor has defaulted;
- ⦿ Tunnel Boring Machine (TBM) fails and must be replaced;
- ⦿ State must procure new contractor;
- ⦿ Work completed to date does not need be replaced and is of full value; and
- ⦿ The funds available for project completion include remaining project budget and surety bond.

Five different failure scenarios were considered . . .

Surety Scenarios



1) Ramping up for deployment of TBM

2) 500' into Tunnel

3) 5,000' into Tunnel

4) 1,500' from End of Tunnel

5) 500' from End of Tunnel

Scenario 3 identified as “worst case”

Costs of “Worst Case” Scenario

Project Delay Assumptions

- + 1.5 years to procure new TBM
- + 0.5 years to obtain new contractor
- + 0.5 months for additional tunneling time

Total Delay = 2.5 years

Costs Analysis	\$ Million
Dig shaft for TBM Removal	\$100
Remove old TBM	\$15
Procure new TBM	\$100
Additional cost for slower tunneling	\$12
Allowance for reduced competition on re-bid	\$47
Draft new contract documents and conduct re-procurement	\$37
Inflation costs for remainder of re-bid contract due to delay	\$36
Interest costs on bonds expected to be paid from toll revenue	\$46
Other costs - <i>including mobilization for new contractor, on-going O&M for existing AWW, legal costs, WSDOT employee costs attributable to delay ,etc.</i>	\$74
Total Additional Costs	\$467

Insurance

- ◉ Commercial General Liability (CGL)
- ◉ Professional Liability
- ◉ Builders Risk
- ◉ Workers Compensation
- ◉ Environmental
- ◉ Excess Liability
- ◉ Auto, Aircraft, Marine, Railroad
- ◉ Owners and Contractors Protective (OCP)

Illustrative Examples

1. Cracking concrete roadway
2. Design error leads to TBM replacement
3. Delayed tunneling or damaged TBM
4. Deformation (settlement) damages a building